

Ramirez, Rick

From: Ramirez, Rick
Sent: Monday, February 24, 2003 3:11 PM
To: Cotto, Kim
Subject: FW: Oroville Facilities Relicensing: Econ questions from Plenary

Please make 60 copies of the attachment. Include this e-mail cover as the first page.

Thanks.

-----Original Message-----

From: Patti Kroen [mailto:pkroen@pacbell.net]
Sent: Monday, February 24, 2003 1:20 PM
To: Ramirez, Rick
Cc: Andersen, Mark
Subject: FW: Oroville Facilities Relicensing: Econ questions from Plenary

OK, so e-mail contains Jim's response and the first one I sent is Roger's. P

Patti Kroen
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-----Original Message-----

From: James Fargo [mailto:James.Fargo@ferc.gov]
Sent: Monday, February 24, 2003 8:27 AM
To: Patti Kroen
Subject: RE: Oroville Facilities Relicensing: Econ questions from Plenary

Hi Patti,

These are about how I responded to these at the last meeting—with some minor edits, of course.

Rodger Masuda sent me a lengthy memo with some economic concerns (the only new questions I received). Since I only got Rodger's comments of late Friday afternoon, I haven't been able to write up a response. But I did call Rodger Friday afternoon after I got his e-mail and talked to him about his concerns. I think our talk helped us both, and I will address some of general concerns of Rogers in my talk on Tuesday.

Jim Fargo (202) 502-6095

-----Original Message-----

From: Patti Kroen [mailto:pkroen@pacbell.net]
Sent: Thursday, January 30, 2003 10:09 PM
To: James Fargo
Cc: Rick Ramirez; Andersen, Mark; Ward Tabor
Subject: Oroville Facilities Relicensing: Econ questions from Plenary

2/24/2003

Hi Jim,

As pre-arranged, here are the questions raised by the Plenary related to FERC's approach to economics for the Oroville Facilities relicensing. I have neither edited them nor grouped them in any particular fashion – they are in the order received. Good luck and if you have any questions about context, Ward or Mark or I might be able to provide some insight.

What are the citations and FERC orders used to establish policy or decisions on the economic portion of an application?

Does the cost of the relicensing process get factored into a FERC economic evaluation?

Does FERC use a flat projection of fuel costs?

If PM&Es exceed project operating costs either existing today or projected into the future, does FERC evaluate the increase in costs against project power generation alone or against the total multiple functions of the project?

Regarding net benefit analysis: What is the denominator, total project or generation only?

Does FERC look at PM&Es that are not included in the application but are included in the settlement agreement?

What is FERC's perspective on water value?

How do you justify economic balancing on a multi-use project? (How do you put dollar values on qualitative issues?)

What criteria do FERC use to decide whether to evaluate all benefits of a project or just the power portion?

Can we get an exemption from licensing?

If ALP decides what is important to them, will FERC review accordingly?

Does FERC include cost to run non-FERC regulated facilities outside the project boundaries (that are proposed by ALP)?

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What are the citations and FERC orders used to establish policy or decisions on the economic portion of an application?

As the Commission says in Mead Corp.[72 FERC ¶ 61,027 (1995).], the Commission's economic analysis uses current costs to compare the costs of the project and likely alternative, with no forecasts of future power values beyond the license issuance date. The basic purpose of the Commission's economic analysis is to provide a general estimate of the potential power benefits and the costs of a project, and reasonable alternatives to project power. The difference between the cost of project power and the cost of the alternative is the net power benefit of the hydroelectric project.

Does the cost of the relicensing process get factored into a FERC economic evaluation?

Yes, we do include an estimate of relicensing costs in our net benefits (economic) analysis of hydro projects.

Does FERC use a flat projection of fuel costs?

Yes. FERC use what we call a "current cost" analysis, which estimates the average power value of a project for the past year. We no longer estimate how that power value will change over time.

If PM&Es exceed project operating costs either existing today or projected into the future, does FERC evaluate the increase in costs against project power generation alone or against the total multiple functions of the project?

No matter what the PM&E costs are when compared to existing operating costs, FERC may need to consider both the power and water value of a project, such as Oroville, because a large multiple function project uses facilities built for more than one purpose.

Regarding net benefit analysis: What is the denominator, total project or generation only?

FERC may need to consider both the power and water value of the multi-use Oroville Project, which can be done in a number of ways.

Does FERC look at PM&Es that are not included in the application but are included in the settlement agreement?

(I would need to know more specifics to answer this one.) The NEPA documents should include the cost of all proposed PM&E measures. The Commission's NEPA documents usually only include a net benefit calculation for the proposed project, no action alternative (existing project) and FERC staff's recommended alternative. So, a PM&E measure that is in the application but not the settlement should have a cost associated with it but would probably not show up in the NEPA net benefit analysis unless Staff recommends it be included in the license.

What is FERC's perspective on water value?

Only rarely does FERC get involved in estimating the value of water supplied by a hydroelectric project. For a relicense, almost all of FERC's project net benefit studies compare the cost continuing to operate and maintain a project (including the cost of any new PM&E's) with the current power value.

What makes this kind of analysis difficult with the Oroville project, is allocating the total cost of the project between the power and water supply functions.

How do you justify economic balancing on a multi-use project? (How do you put dollar values on qualitative issues?)

The Commission doesn't choose to put dollar values on non-developmental purposes (dollars per fish, dollars per frog) when it does resource balancing. We describe the effects on environmental resources qualitatively.

What criteria do FERC use to decide whether to evaluate all benefits of a project or just the power portion?

FERC doesn't have a criteria. Like most aspects of both economic and environmental analysis, deciding how to do a net benefit analysis for a project like Oroville involves considerable judgement.

Can we get an exemption from licensing?

No. The project doesn't qualify under any of the Commission's exemption criteria.

If ALP decides what is important to them, will FERC review accordingly?

The Commission has given plenty of ^(minor) weight to settlement agreements during licensing proceedings and usually only make adjustments to conditions that go beyond the Commission's authority. ^{Show} Do, the Commission may decide to not adopt all the conditions of a settlement among parties. That doesn't mean that those parts of a settlement agreement aren't valid, it means that parties can not go to the Commission to resolve disputes involving those areas of a settlement agreement that the Commission did not adopt as part of the FERC license. *Have to use some other*

Does FERC include cost to run non-FERC regulated facilities outside the project boundaries (that are proposed by ALP)?

Normally, these costs are included in the economic analysis of the proposed project. We just don't include those any non-jurisdictional provisions in the license and enforce them.